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Ofgem
Commonwealth House
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By email to RIIOED2@Ofgem.gov.uk

13 March 2024

Dear David,

SSEN Distribution response: RIIO-ED2 Distribution System Operation Incentive metrics consultation

1. SSEN Distribution welcomes the opportunity to respond to Ofgem's consultation from 16 February 2024 regarding RIIO-ED2 Distribution System Operation (DSO) Incentive metrics. SSEN Distribution is the trading name of Scottish Hydro Electrical Power Distribution plc and Southern Electric Power Distribution plc. This response is being submitted on behalf of those licensees. With a network reach to over 3.9 million households and businesses in the North of Scotland and Central Southern England, working alongside Ofgem and other stakeholders is a priority that remains unwavering. We welcome initiatives that seek to improve the general levels of service and the standards that customers receive.
2. In principle we support the development of objective measures of DSO performance to assess licensee performance. We think this is crucial, given some stakeholder concerns about Distribution Network Operators' (DNOs) ability to successfully fulfil DSO roles.
3. There has been extensive work undertaken over the last two years with all DNOs, Ofgem and wider stakeholders to develop objective metrics but the work has shown that the metrics developed are not comparable across DNOs. Given the importance of objective measures, we will continue to support this development wherever possible.
4. We broadly agree with the conclusions that Ofgem has drawn in its consultation. We also generally agree with the proposals that Ofgem has put forward, namely the recommendations not to switch on the metrics, and to reassign the 20% value of the metrics to the Performance Panel Assessment. We agree that the Performance Panel should be well equipped to assess company performance and hence that the additional 20% value should be applied to their assessment.

Ongoing reporting

5. In relation to ongoing reporting against the metrics, we agree that this should be a requirement going forward, but consider further work is required to develop the metrics to provide the output that is being sought. As noted in Ofgem's consultation, the metrics are not appropriate to implement in their current form. That same conclusion must also apply to reporting against the metrics in their current forms. This is especially the case for Flexibility

Reinforcement Deferral (FDt), which we consider is the metric which least reflects the intended output of work undertaken by the working group.

Flexibility reinforcement deferral (FDt)

6. In our previous responses to Ofgem's Requests for Information (RFIs) on this topic, we highlighted our concerns with FDt namely that:
 - a. it should reflect individual scheme investment decisions using the Comment Evaluation Methodology drawing on the latest understanding of network usage and market capabilities to deliver the best outcomes for customers;
 - b. the timing, incremental nature, and cumulative impact of network investment can lead to an oddly 'lumpy' metric if not otherwise adjusted.
7. It remains the case that neither of these defects have been addressed. Consequently, we consider that the FDt metric, in its current form, does not demonstrate the purpose for which Ofgem intended the metric and hence we consider that it would be inappropriate for networks to report against it in its current form.

Secondary Forecasting (SFt) and Curtailment Efficiency (CEt)

8. Our concerns with Secondary Forecasting (SFt), previously known as Secondary Network Visibility (NVt), and Curtailment Efficiency (CEt) have been considered but in both these cases, it is still not entirely clear what 'good' should look like.
9. Our recommendation is that Ofgem should use the metric reporting part of the incentive to allow real-life data to be assessed and aid the correct design of incentive measures.

Revision of Regulatory Instructions and Guidance (RIGs) and Panel criteria

10. Taking into account that the metrics in their current form do not reflect the required outputs of the metrics, the RIGs will need to be updated to take account of this.
11. In addition, if the 20% value of the metrics is applied to the Performance Panel Assessment, the assessment criteria for the Performance Panel should reflect this from year 2 onwards (noting that year 1 is fixed). This should be broadened to include the respective "purposes" of Flexibility reinforcement deferral, Secondary forecasting, and Curtailment efficiency.
12. Please refer to Annex A for responses to the specific questions raised by Ofgem in the consultation.
13. If you have any questions in relation our response, please do not hesitate to get in touch.

Yours sincerely,

Rose Tresidder
Regulation Manager
SSEN Distribution

Annex A

Q1. Do you agree with our recommendation not to switch on the FDt outturn performance metric during RIIO-ED2? Please explain why.

As noted in our response to Ofgem to the RFI submitted on 1 December 2023, we identified some fundamental issues with metric design, which we consider question the value it can provide in measuring DNO ability.

The RFI combined Network Development Plan (NDP) based on the 2022 Distribution Future Energy Scenarios (DFES) and compares it with RIIO-ED2 Business Plan Data Tables set using the 2020 DFES. In our Southern licence area, in particular, we have seen network activity increase at a higher rate than we previously predicted. This in combination with a methodological assumption which does not reflect the impact of previous reinforcements on subsequent year targets, has led to quite notable divergence in the level of forecast capacity requirements and previously planned investment. In a low growth scenario this may have been an appropriate approach, however since we are amongst an inflection point in load growth, there is currently no reference point against which to reasonably compare.

However, more fundamentally, we consider the absence of reference to the most appropriate solution using the Common Evaluation Methodology and use of contemporary network and market data, there is a significant risk this metric may drive inefficient deferral decisions. Consequently, we consider that the FDt metric, in its current form, does not demonstrate the purpose for which Ofgem intended the metric and hence we consider that it would be inappropriate for networks to report against it in its current form.

Our recommendation is that Ofgem should use the metric reporting part of the incentive to allow real-life data to be assessed and aid the correct design of incentive measures. We consider further work is required to develop the metrics to provide the output that is being sought. The RIGs will also need to be updated to reflect this.

Q2. Do you agree with our recommendation not to switch on the SFt outturn performance metric during RIIO-ED2? Please explain why.

We consider further work is required to develop the metrics to provide the output that is being sought. It is still not entirely clear what 'good' should look like. Our recommendation is that Ofgem should use the metric reporting part of the incentive to allow real-life data to be assessed and aid the correct design of incentive measures. The RIGs will also need to be updated to reflect this.

Q3. Do you agree with our recommendation not to switch on the CEt outturn performance metric during RIIO-ED2? Please explain why.

We consider further work is required to develop the metrics to provide the output that is being sought. It is still not entirely clear what 'good' should look like. Our recommendation is that Ofgem should use the metric reporting part

of the incentive to allow real-life data to be assessed and aid the correct design of incentive measures. The RIGs will also need to be updated to reflect this.

Q4. Do you agree with our alternative approach to continue with the metrics as a reporting requirement? Please explain why.

We agree that reporting against these metrics should continue, however as noted above all metrics require further work to varying degrees. Please see responses to Questions 1, 2 and 3 above. Please also note that the RIGs should be updated to reflect this.

Q5. Do you agree with our alternative approach to reassign the 20% value of the incentive to the performance panel assessment? Please explain why.

We agree that the Performance Panel are well equipped to assess company performance and hence that the additional 20% value should be applied to their assessment. If the 20% value of the metrics is applied to the Performance Panel Assessment, the assessment criteria for the Performance Panel should reflect this from year 2 onwards (noting that year 1 is fixed). This should be broadened to include the respective “purposes” of Flexibility reinforcement deferral, Secondary forecasting, and Curtailment efficiency.